



CHALLENGES + SOLUTIONS

DEFENCE CONSTRUCTION (1951) LIMITED
ANNUAL REPORT 2008-2009

Canada

At a Glance

CORPORATE PROFILE

Defence Construction Canada (DCC, or the Corporation) is a Crown corporation that provides contracting, construction management and infrastructure services in support of the Department of National Defence (DND), the Canadian Forces (CF) and the defence of Canada.

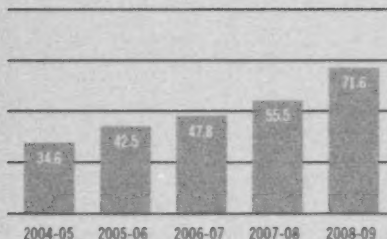
SERVICES OVERVIEW

DCC contracts for and manages consulting, construction and environmental services on behalf of a number of client groups within DND, including the Infrastructure and Environment Group; the chiefs of the maritime, land and air staffs; the Canadian Forces Personnel Support Agency; the Canadian Forces Housing Agency; and Defence Research and Development Canada. The Corporation has five primary service lines:

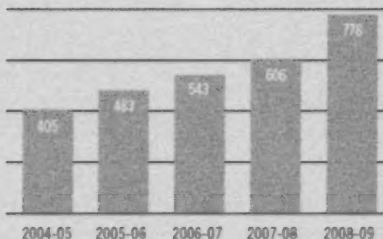
- Construction Services,
- Contract Services,
- Environmental Services,
- Project and Program Management Services, and
- Real Property Management Services

PERFORMANCE HIGHLIGHTS

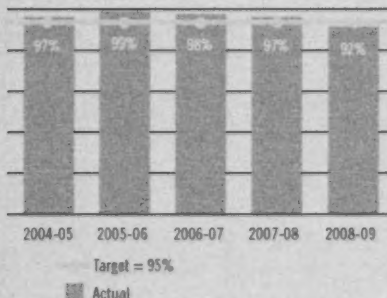
Services revenue
(in millions of dollars)



Growth
Number of employees



Client satisfaction



Utilization rate
Percentage of employee hours spent on contract work

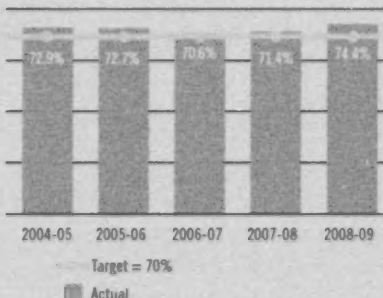


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THE CHALLENGE

In a typical year, DND spends half a billion dollars on construction-related projects through DCC. From routine property maintenance work to complex environmental remediation, these initiatives demand not only specific technical capabilities, but also knowledge of the particular needs of the Canadian military.

As DND's construction contracting authority, DCC is uniquely positioned to address the challenges associated with delivering infrastructure projects for the Canadian military.



THE SOLUTION

DCC listens to DND's requirements and designs project delivery processes to suit them. Founded as a construction-focused organization, the Corporation's business today extends into project management, environmental sciences and real property asset management.

As DND faces challenges, DCC responds with tailored solutions.

Message from the Chair

My role as Chair of the Board of Directors of Defence Construction Canada (DCC, or the Corporation) began in June 2008, and I am honoured to work with such a dedicated and talented Board. My predecessor, John McLure, was instrumental in ensuring that DCC's Board embraced and acted on the various corporate governance initiatives established by the Government of Canada.

During my tenure, I intend to build upon this legacy by continuing to ensure that the corporate governance practices of DCC's Board of Directors and of DCC itself remain appropriate for the organization. In addition, the Board will continue to keep abreast of relevant current and emerging best corporate governance practices, in both the private and public sectors, and will provide guidance to DCC in this area.

To that end, DCC's Board is committed to overseeing DCC's implementation of the applicable measures that arose out of a 2005 Treasury Board document, *Review of the Governance Framework for Canada's Crown Corporations—Meeting the Expectations of Canadians*. In March 2009, DCC held its first annual public meeting, pursuant to one of the measures noted in that document.

DCC continues to enjoy significant growth in response to the increasing infrastructure requirements of the Department of National Defence (DND) and the Canadian Forces (CF). Our employee base increased by 28% over the past year and human resources management issues remain a key focus for the Board, as recruiting new hires with the right training and experience is a constant challenge. Our most significant upcoming human resources issue will be the selection of a new CEO to replace Ross Nicholls, to whom I am particularly grateful for his guidance and assistance during my first year as Chair.

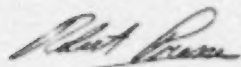
DCC provides a wide variety of services to DND/CF as the delivery agent for government defence projects and in 2008-09 all its service lines have seen increased demand. The Board has been impressed by the ability of DCC's executive management and employees to embrace the challenges of complex, multi-disciplinary projects and is confident of the Corporation's future success.

This confidence comes from the various stewardship activities that the Board performed in 2008-09, in particular the Board's review of DCC's 2009-10 to 2013-14 Corporate Plan. This Plan incorporated the results of the 2008 Special Examination by the Office of the Auditor General (OAG) as well as those of various internal audits conducted over the year.

The Board is also responsible for the stewardship of the Corporation. The Board is able to evaluate DCC's identification of the principal risks facing the Corporation and I believe DCC is taking appropriate steps to improve upon its people, processes and systems in order to continue to fulfill its mandate.

I believe this is so because Ross Nicholls, as President and CEO of DCC, ensured that the organization maintained a culture where employees are solution oriented and committed to serving the needs of DND and the CF. As President and CEO for over 13 years, with a strong leadership style and high expectations of his staff, Ross shaped DCC into what it is today: a nimble and agile entity that can deliver whatever is asked of it. On behalf of DCC's Board of Directors, I would like to acknowledge Ross's exceptional contribution to the success of DCC and to wish him the rewarding retirement he deserves.

The tumultuous financial events of the past year have re-taught all of us the lesson that one cannot be complacent, rely on past tactics to confront future challenges and obsess about today at the expense of having a future-based perspective. I assure you that DCC is a forward-looking Corporation, proactively seeking innovative people, technologies and practices to create an exciting and challenging future with our client, DND and the CF.



Robert Presser
Chair of the Board of Directors

Message from the President

The demand for DCC services from DND and the CF reached a new high water mark in 2008–09. After a decade of double-digit growth, the demand for services continued to increase significantly over 2007–08 levels, ranging from 17% for Environmental Services to 57% for Project and Program Management Services. DCC launched a new Real Property Management service line to consolidate some of the newer practice areas. Construction activity in support of new CF equipment acquisitions caused some of the increase. Another source was the government's commitment in the Canada First Defence Strategy to renewing and rebuilding much of the current defence infrastructure in the next 10 to 20 years. It is a dynamic time for the Corporation and its employees.

DCC increased its human resources by 28% during the year in response to service delivery needs. The implementation of a new recruitment and retention initiative has started to put in place the measures required to support these increasing staff levels. The increase in both activity levels and work complexity could not have been managed as effectively as it was without the service line matrix framework that was put in place over the past several years. As a result, DCC not only increased its service delivery capacity, but also managed the quality of services to achieve a client satisfaction rating of 92%. This remarkable achievement speaks volumes about the competence and dedication of DCC staff.

In 2008–09, the Corporation's services revenue grew from \$55.5 million to \$71.6 million as a result of increased client demand. Despite the front-end effort associated with high growth rates, DCC's key measure of productivity—time utilization—increased from 71.4% to 74.4%. Furthermore, overhead and administrative costs as a percentage of revenue were reduced by 5%. These figures are a result of prudent financial management practices and an unwavering management focus on efficiency.

The accomplishments of the Corporation are relevant in the big picture only to the extent that they contribute to DCC's mandate to support the defence of Canada. The Corporation makes a larger contribution every year. The numbers and stories in this report will clearly demonstrate the Corporation's flexibility and responsiveness to constantly changing client requirements. DCC's inclusion in operational planning and deployment with the Military Engineers on training, domestic and international operations is a good example of DCC's success in supporting DND and the CF to the greatest possible extent consistent within its mandate.

The outlook for the Corporation is exciting. The volume and diversity of demand for DCC support should continue to grow into the foreseeable future. The collective competence, experience and engagement of the entire DCC team make it uniquely suited to meeting those upcoming challenges. The exceptional working relationships established with the client groups in DND and the CF, and with the construction industry that delivers the end product, will help DCC deliver projects successfully.

In my last formal message as President, I would like to acknowledge the support and contribution of all DCC employees to the success of DCC: one of the most focused and effective organizations, public or private, in Canada.



Ross Nicholls
President and Chief Executive Officer

Service Profiles

Defence Construction Canada (DCC) is a Crown corporation whose mandate is to provide innovative and cost-effective contracting, construction management and infrastructure-related services for the Department of National Defence (DND), the Canadian Forces (CF) and the defence of Canada. From project needs planning through building decommissioning, our work covers a broad spectrum of activity. DCC's resources are divided among five service lines.



Construction Services

This is DCC's oldest service line. The Construction Services team supports the creation, renovation and maintenance of facilities for DND's infrastructure and environment program.



Contract Services

The Contract Services team oversees the procurement of goods and of professional, construction and maintenance services to fulfill Canada's domestic and international defence infrastructure needs.



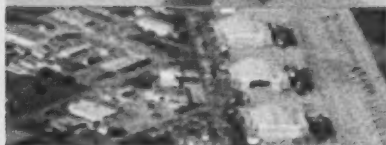
Environmental Services

Environmental Services helps DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk.



Project and Program Management Services

The Project and Program Management service line advises DND on matters such as building requirements, program planning, and schedule and document control.



Real Property Management Services

From needs planning to facility decommissioning, the Real Property Management Services team ensures DND's real property assets are managed efficiently throughout their life cycles.



AIR BASE EXPANSION

Construction Services

Air support infrastructure at 8 Wing/Canadian Forces Base Trenton is being upgraded to accommodate soaring demand. Teams from DCC and DND are right in the middle of this ambitious construction program.

As one of the largest and busiest Air Force bases in Canada, 8 Wing/Canadian Forces Base (CFB) Trenton is home to more than 3,000 regular and reserve CF members, and more than 600 civilian employees. The base is a hub for air transport operations and its personnel are involved in nearly every CF operation.

Demand for 8 Wing's infrastructure is increasing, and numerous construction projects are required to accommodate the base's evolving tactical and strategic capabilities. To address this demand, Canada's government has pledged to spend \$500 million in the next five years on construction work that includes rebuilding taxiways and aprons, upgrading fuel storage and fuel hydrant capacities, building a de-icing facility, expanding office accommodations, replacing maintenance shops and supply stores, and upgrading the base's fire protection and fire fighting capacities.



ACCOMMODATING DEMAND

Construction Services supports the creation, renovation and maintenance of facilities for DND's infrastructure and environment program.

In a typical year, Construction Services works with more than 1,200 contractors and consultants—clear evidence of how the service line fosters competition in the marketplace and delivers value to its client.

DCC helps coordinate construction efforts

The intensity of the base's construction program demands that DCC's Construction Services staff at 8 Wing work with DND staff to coordinate each project. Because contractors often work on projects concurrently and in proximity to one another, the project management team must confirm that one builder's work does not interfere with another's. To that end, Construction Services and DND must ensure not only that job sites and schedules are properly delineated, but also that contractors have unrestricted access to site trailers, delivery roads and material-storage areas. Finally, DCC and DND professionals must also guarantee that construction activity never obstructs 8 Wing's regular military operations.

Integrated service delivery model ensures efficiency

According to DND, dealing with DCC staff at 8 Wing is easy. DCC's integrated service delivery model enables the Corporation to offer not just construction services, but also the environmental and project management services the client requires to realize this massive construction program.

Responsive and efficient, DCC's team at 8 Wing is poised to meet its construction challenges now and throughout the major transformation at the base.



MORE THAN BUILDINGS

Contract Services

DCC had the task of putting in place contracts for not only construction services, but also laundry facilities and food preparation.

When the 2010 Olympic and Paralympic Winter Games kick off next February, more than 5,500 athletes from 80 countries will compete for top honours in their respective sports. The task of ensuring the games run smoothly and safely requires a team of thousands of staff and volunteers, some of whom are from DCC.

Contracts for more than just buildings

DCC is working behind the scenes to ensure the seamless delivery of Operation Podium—the DND component of the massive security exercise behind the 2010 Games. In conjunction with DND officials, DCC's Contract Services team developed specifications for contracts to support the temporary accommodations for CF members.



EXPANDING OUR SCOPE

The Contract Services team oversees the procurement of goods and of professional, construction and maintenance services to fulfill Canada's domestic and international defence infrastructure needs.

In 2008–09, Contract Services awarded 2,081 contracts worth a total of over \$500 million.

While this project might sound like a typical initiative for DCC, it was anything but. In addition to defining scopes of work for accommodation facilities at four locations, the DCC and DND team also helped specify requirements for support services such as laundry and food—areas that were new to the DCC team.

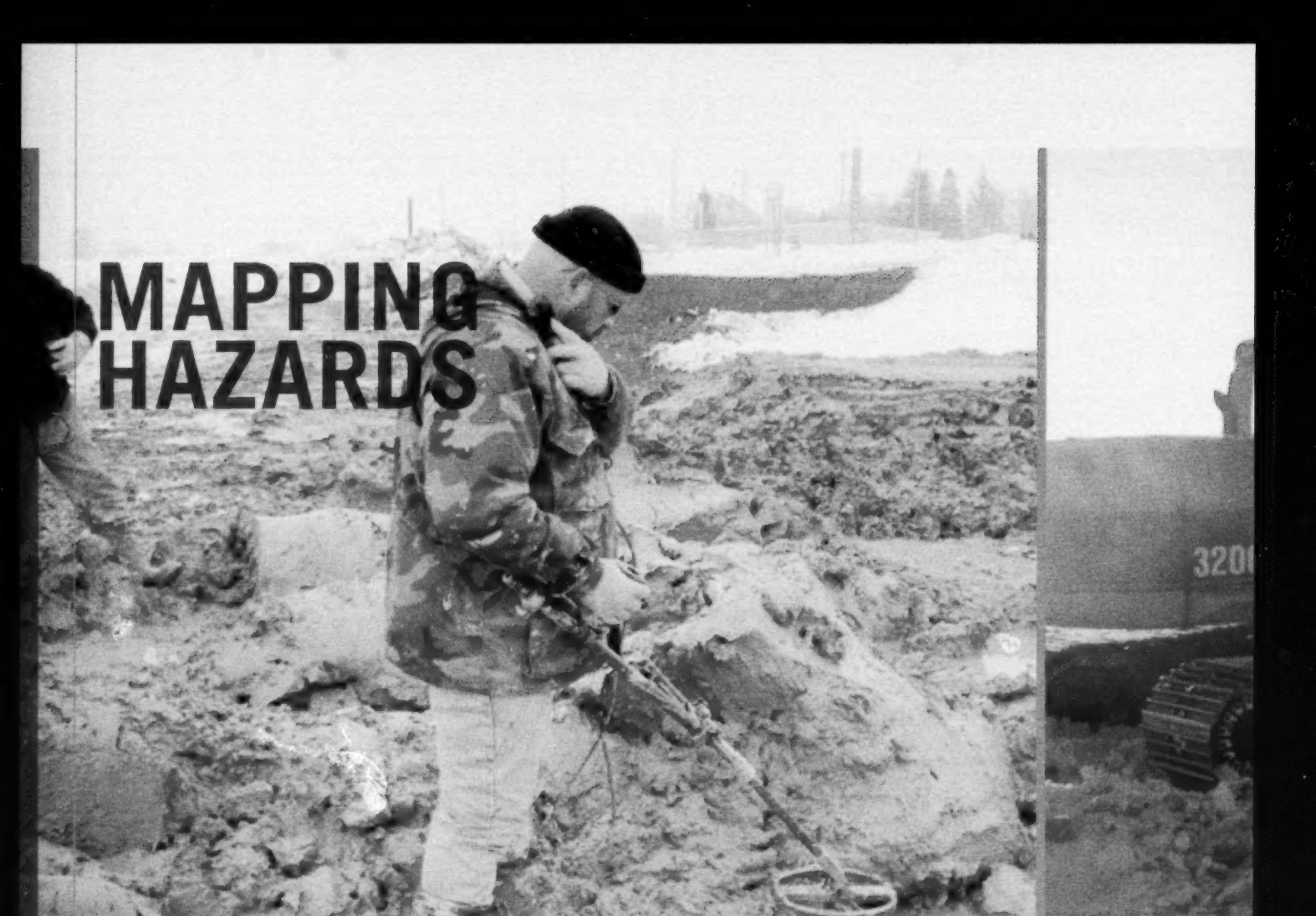
To meet these novel requirements, DCC's team used many of the Corporation's standard contracting procedures. With DND's help, the team brought together the requirements of many stakeholders and developed a clear set of specifications for prospective bidders. The result was a scope-of-work document, prepared in a matter of weeks, that met the client's particular requirements and reflected a wide variety of interests.

Delivering complete solutions for complex projects

In many ways, Operation Podium has been a perfect test of DCC's operations. The project demanded that DCC not only deliver a complete solution for the CF, but also use its extensive staff resources from across the country to tackle a particularly complex project in a small window of time.

The temporary-accommodation contract was awarded to a private sector firm and the facilities are set to open in advance of the games, as planned.

MAPPING HAZARDS



Environmental Services

DCC's Environmental Services team is using geographic information systems (GIS) technology to map hazards on unexploded explosive ordnance (UXO) legacy sites and ensure public safety for years to come.

For DND, the task of developing risk mitigation strategies for its 2,500 UXO legacy sites is substantial. Not only must the department keep accurate records of munitions types, locations and densities, but it must also share data with local governments to confirm buried munitions do not threaten future land use.

DCC has developed a new method to help DND manage this critical public safety obligation. Members of the Corporation's Environmental Services team will use GIS technology to model UXO legacy sites, evaluate risks to the public and develop mitigation strategies that will ensure safety for years to come.

UNEARTHING UXOs



Environmental Services helps DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk.

The Environmental Services team protects the Canadian public through its work on DND's unexploded explosive ordnance (UXO) and legacy sites programs.

Mapping UXO legacy sites

GIS technology enables users to capture, store, analyze and display geographically referenced information. It is commonly used in applications such as cartography, archaeology and urban planning, and enables users to digitally model discrete real-world objects (such as roads and buildings) and continuous conditions (such as topography or climate).

Using GIS technology, DCC is able to develop three-dimensional maps of legacy sites and pinpoint the locations of UXOs. By combining its knowledge of the concentrations of UXOs on legacy sites and the public's use of these sites, DCC is able to help DND prioritize clearance exercises and develop risk mitigation strategies for legacy sites.

Other GIS applications

GIS technology can be used for more than mapping UXO legacy sites. DCC can manipulate GIS data to develop comprehensive schedule and costing analyses for UXO remediation exercises. The Corporation also plans to share its GIS data with municipal governments to ensure that UXO risks are properly managed on privately held legacy sites.



A GREATER ROLE

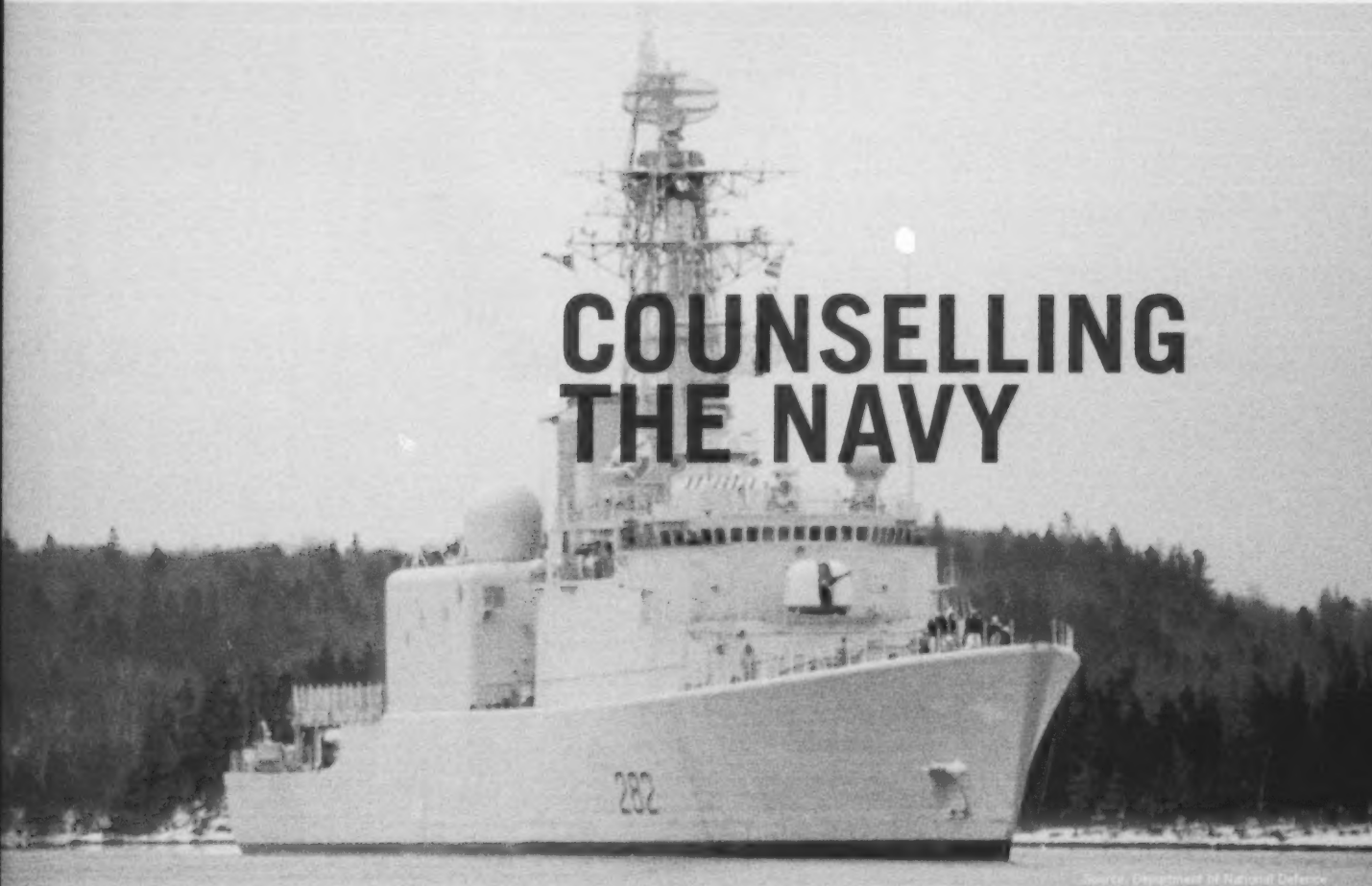
Project and Program Management Services

DCC's Project and Program Management Services team is helping the Canadian Navy implement a long-term capital infrastructure plan.

Faced with the implementation of a 30-year, \$1.35-billion capital construction plan, the Canadian Navy's Director of Maritime Infrastructure (DMI) turned to DCC's Project and Program Management (PPM) service line for help in turning ideas into reality.

Expanded role leads to booming business

Until recently, PPM's mandate on a naval facility ended with the delivery of a building's business case to the DMI. In its expanded deputy project director role, however, the PPM team will prepare all pre-construction documents (such as development studies, concept-of-operations plans and infrastructure statements of requirement) for initiatives that do not require specific naval expertise.



COUNSELLING THE NAVY

The Project and Program Management service line helps DND plan programs, determine building requirements, and control schedules and documents.

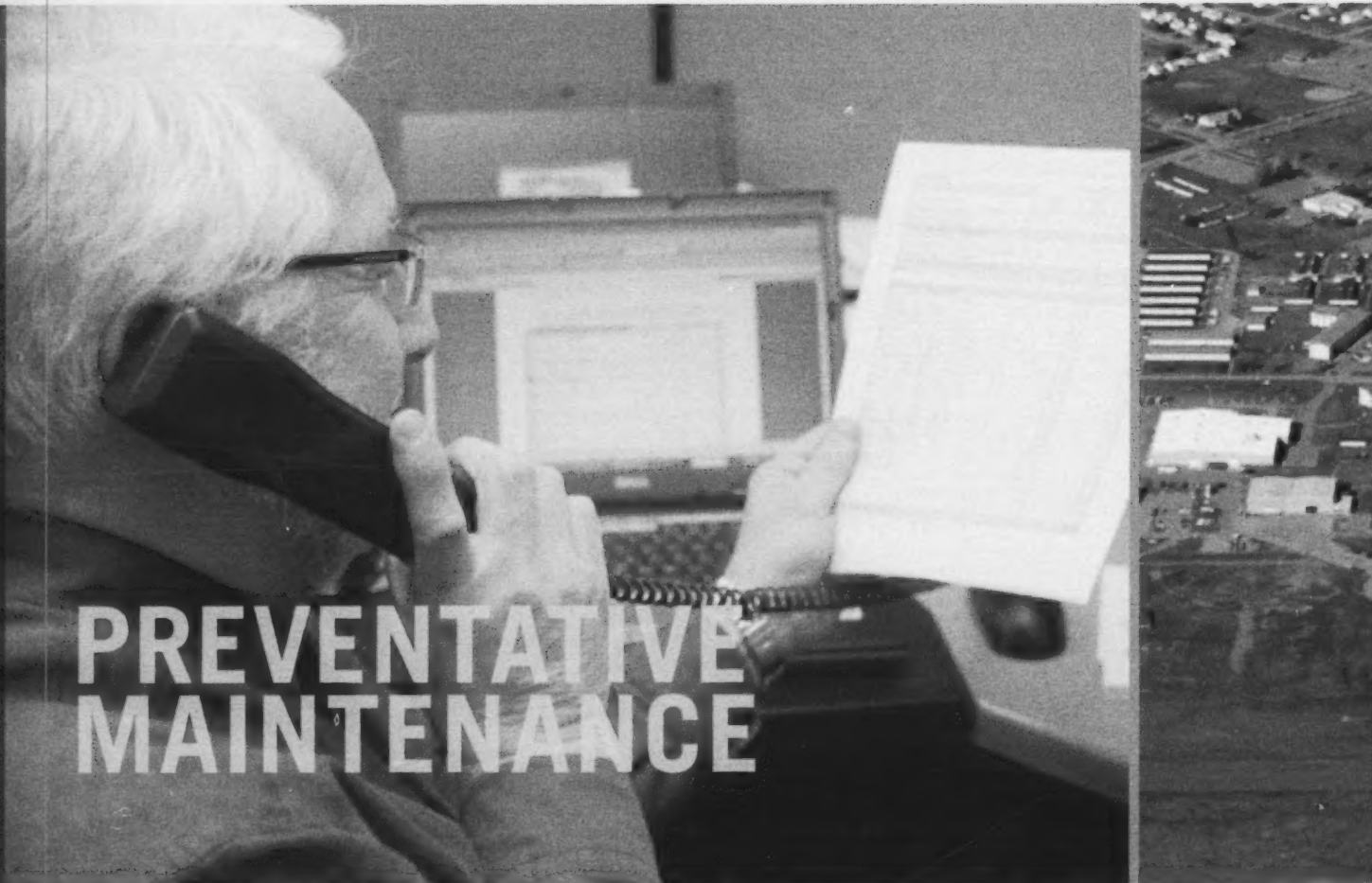
In 2008–09, the Project and Program Management team contributed to the defence of Canada by providing support to Communications Security Establishment Canada (CSEC) for the construction of its new facility in Ottawa. Construction on the project, with an estimated value of \$800 million, is slated to begin in early 2011.

The PPM team's new function means the service line plays a much more active role in conducting short- and long-term strategic planning for the DMI. As a result, the group is busier than ever.

DCC has the knowledge and expertise

DMI increased DCC's role in the capital construction plan for two key reasons. First, DCC's team has an unmatched understanding of the DND contracting process. Over the past 50 years, DCC has developed a considered, well-managed approach to infrastructure planning that safeguards DND's interests.

Second, DCC has the breadth of expertise to respond to nearly any construction challenge. For example, PPM's team of architects, engineers and urban planners has counselled the Navy on the development of a docking and refuelling facility in Nunavut's High Arctic. Scheduled to be fully operational in 2015, the Nanisivik Naval Facility will serve as a remote base for Her Majesty's Canadian ships and the Canadian Coast Guard fleet.



PREVENTATIVE MAINTENANCE

Real Property Management Services

DCC's Real Property Management service line recently launched an ambitious project to catalogue the condition of the physical assets at each of DND's 25 major sites across Canada.

Whether for a car, house or aircraft hangar, preventative maintenance is essential to ensure systems run smoothly for years to come.

As part of a requirement to administer DND's asset management strategy, DCC is developing a standardized preventative maintenance plan for the department's entire real property portfolio. That is no small task. DND operates 25 major sites across the country, some of which are home to hundreds of buildings. With the help of staff at every base, the team from DCC's Real Property Management (RPM) service line will catalogue the condition of every building.

Standardizing maintenance approaches

DCC's preventative maintenance strategy is based on a standard for building performance specifications developed by the American Society for Testing and Materials. The plan formalizes processes for cataloguing, scheduling and conducting



PROTECTING ASSETS

Source: Department of National Defence

From needs planning to facility decommissioning, DCC's Real Property Management service line ensures DND's realty assets are managed efficiently throughout their life cycles.

DCC's Real Property Management service line provides a range of facility management functions for DND, including operation and maintenance, construction, repair, and disposal of real estate. It also offers expertise on environmental matters for all types of buildings in DND's \$21-billion real property portfolio.

interventions related to a building's site services and mechanical, electrical and structural systems. The process also prioritizes reviews and repairs to ensure DND's facilities comply with military requirements, manufacturers' warranties, and federal and provincial regulations.

Cataloguing 4 Wing Cold Lake

The first test of the new preventative maintenance plan may be one of its largest. In the fall of 2008, the Wing Construction Engineering Officer at 4 Wing Cold Lake requested that the RPM team help develop a preventative maintenance program for the base's assets.

This site is one of Canada's largest and most remote Air Force bases. Combined, 4 Wing's 400 buildings span more than 300,000 square metres. The base's principal infrastructure, most of which is in fair condition at best, is between 40 and 50 years old. The RPM team estimates that, at current staff levels, the process of cataloguing 4 Wing's assets could take up to three years.

Protecting DND's assets

As the RPM team works with staff at 4 Wing, it will further test and refine its preventative maintenance strategy on the physical assets at CFB Halifax, CFB Moose Jaw and CFB Aldershot. Once the process is completed, it will form the backbone of a comprehensive asset management plan that will ensure the viability of DND's physical infrastructure for years to come.

The Organization

CORPORATE SERVICES

To help DCC deliver services, the Corporate Services group at the Corporation's head office in Ottawa provides support services to the entire organization and contract financial administration services to the client. These services include human resources, finance and accounting, information technology, communications and administration services.

The Corporation's significant growth in recent years has presented the Corporate Services group with many challenges in building and maintaining adequate infrastructure to handle the growing demand for support services. The group has met these challenges by building a strong and dedicated team of employees, technicians and professionals from a variety of disciplines. The group has also invested in such things as new office space, information systems and technologies, administrative tools, and office equipment to meet changing and growing business requirements. In addition, the Corporate Services group has put in place business and operational policies and practices to create an effective internal control system that safeguards corporate assets, and supports employees and service delivery.

EMPLOYEES

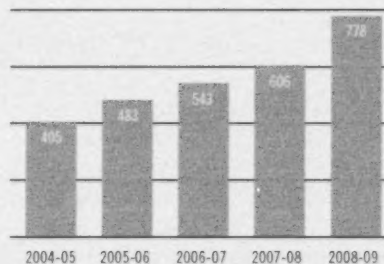
DCC's chief asset is its people, and its corporate success is built on employee ability and commitment. One of DCC's strengths is its dedicated workforce of professional, technical and administrative people. Other specialists in finance, human resources, information technology, communications and administration support the operations workforce.

At year-end, DCC had 778 employees, an increase of 28% from the end of 2007-08.

In 2008-09, 20 employees marked 10 years of service with DCC, seven employees marked 20 years of service, five employees marked 25 years of service and three employees marked 30 years of service.

DCC's internal career development practices helped 121 employees advance their careers through promotions, transfers, relocations and acting assignments during the past year. Twenty-one employees volunteered for foreign deployment in Afghanistan and northern assignments for DEW Line projects. DCC and DND benefit from the transfer of skills between operating locations as employees hone their skills and test themselves. Through this interchange, DCC expands its collective base of knowledge and experience.

Number of employees





President's Award recipient, Tony Ambrosio, with Linda Newton winner of the Service Development Award.



Susan Low, recipient of the Robert Graham Memorial Award with David Pottle, Service Innovation Award winner. Absent: Gerry Gardiner, Customer Satisfaction Award recipient.

NATIONAL AWARDS 2008-2009

DCC proudly recognizes the contributions of all employees to the Corporation's success. The National Awards program, in particular, is a celebration of the very best accomplishments of the men and women who drive DCC forward.

The President's Award is presented annually to the employee who has consistently demonstrated outstanding service to the Corporation. This year's recipient is Tony Ambrosio, Western Region.

The Service Development Award recognizes employees whose actions best contribute to the development or promotion of client services and the service delivery team. Linda Newton, National Operations Group, Ottawa, is this year's recipient.

The Corporation presents its Customer Satisfaction Award to the employee who has consistently provided exemplary customer service over the years. This year's recipient is Gerry Gardiner, Ontario Region.

The Service Innovation Award recognizes employees who deliver innovative, value-added solutions to DCC's clients. The recipient of this year's award is David Pottle, Atlantic Region.

The Robert Graham Memorial Award is presented to the employee who makes a special contribution to the improvement of workplace safety or environmental protection. Susan Low, Western Region, is the 2008-09 recipient.

General Service Medal

The General Service Medal is awarded to Canadian citizens, other than members of the CF, who deploy outside of Canada to provide direct, full-time support to operations in the presence of an armed enemy.

DCC is proud of its employees who accept the challenge of serving Canada and DND's deployed operations. In 2008-09, the following 11 employees received the General Service Medal for serving in Kandahar, Afghanistan, in support of Operation Athena:

Marcy Burton
Wanda Deong
Chris Dziepak
Judy Elliott
Peter Garieri
Susan Guelpa

Scott Hall
Chuck Jones
Dan Munroe
Patricia O'Donnell
Tim Summers

Corporate Governance

The accountability and governance structure for DCC's Board of Directors is set out in Part X of the *Financial Administration Act*. As a Crown corporation, DCC is also subject to other legislation, including the *Conflict of Interest Act*, *Public Servants Disclosure Protection Act*, *Access to Information Act* and *Privacy Act*, as well as corporate governance policy and practice guidance from the Government of Canada.

The Board reports to Parliament through the Minister of Public Works and Government Services. The Board is accountable to the Minister for the stewardship and governance of DCC. All directors are appointed by Governor in Council, on the recommendation of the Minister. The Board possesses the expertise that DCC requires.

The Board Competency Profile lists the skills, experience and competencies required to meet the governance requirements of a Crown corporation. DCC's board members have a strong balance of public and private sector experience and knowledge of fields relevant to the Corporation's business lines such as engineering, construction, law, finance, and public administration.

DCC's Board is made up of seven members – three women and four men from across Canada – who are all independent of DCC management, except for DCC's President.

To ensure that the Directors understand their roles and responsibilities, the Board relies upon a Board of Directors Charter. This Charter is reviewed regularly to ensure it continues to be relevant. The pertinent responsibilities outlined in this document are noted in the following section, along with some key 2008-09 Board activities.

The Board fulfills some of its functions by delegating a number of its activities to board committees. There are three Committees of the Board: Audit, Governance and Nominating. These Committees serve as the initial point of contact for key issues. Each Committee has its own charter. Details of the charter of each Committee, as well as the activities of the Committees, are outlined on page 21 and 22.



STRATEGIC PLANNING

The Board provides input into DCC's strategic planning process. It reviews and approves the Corporate Plan, as well as the annual operating and capital budgets. The Board also reviews and approves DCC's Annual Report. This year, the Board specifically acknowledged how DCC intended to respond to the results of the 2008 special examination of the Office of the Auditor General (OAG) in the 2009–10 to 2013–14 Corporate Plan and acknowledged that it will oversee DCC's progress in this regard.

GOVERNANCE AND PUBLIC POLICY OBJECTIVES

The Board reviews and evaluates the principal areas of risk for DCC—as identified by its senior management and outlined in DCC's Corporate Plan—as well as current public policy objectives, to ensure that DCC management is maintaining a balance between public policy objectives and relevant private sector business practices. In 2008–09, the Board received regular reports regarding DCC's risk management framework and ensured that the framework is appropriate for the Corporation. Further information on DCC's risk management framework may be found in section 5.0.

Also, the Board oversaw the introduction of a new corporate activity—DCC's first annual public meeting of stakeholders—that was recommended in a 2005 Treasury Board document, *Review of the Governance Framework for Canada's Crown Corporations*.

VALUES AND ETHICS

In promoting a culture of ethical business conduct at DCC, the Board of Directors ensures DCC maintains and updates its ongoing programs and policies related to values and ethics. The Board has endorsed DCC's Code of Business Conduct, which is based on best practices in accountability, transparency and fairness. The Board reviews this document regularly and receives an annual report on conflict of interest issues related to DCC's people. The members of the Board each sign an annual declaration pertaining to the *Conflict of Interest Act*.





AUDIT

The Board assesses the integrity of DCC's internal controls through the use of internal auditors. The Board receives regular reports from DCC senior management, the OAG (external auditor), as well as the contracted independent internal auditor. During this reporting period, the Board received the results of the 2008 OAG special examination.

MANDATE

The Board regularly reviews DCC's mandate. In this reporting period, the Board acknowledged that DCC continues to meet its mandate in an effective manner. It also noted the Minister of Public Works and Government Services' ongoing work to articulate priorities and accountabilities for DCC, as recommended in the 2005 Treasury Board document, *Review of the Governance Framework for Canada's Crown Corporations*.

SUCCESSION

The Board oversees DCC's succession planning and management development to ensure that necessary skills are identified, maintained and developed as needed. During this period, the Chair of the Board and the Chair of the Nominating Committee, along with a representative from the Prime Minister's Office, the Privy Council Office and the Office of the Minister of Public Works and Government Services, formed the Selection Committee for the recruitment of a new President and Chief Executive Officer for DCC, and participated in the selection process. The Board assisted its fellow members in this endeavour and readied itself to provide support for the new appointment.

PERFORMANCE

The Board monitors and evaluates DCC's performance against the strategic initiatives outlined in the Corporate Plan. In the fall of 2008, the Board reviewed and approved DCC's 2009–10 to 2013–14 Corporate Plan, which articulates specific strategic initiatives and performance measures for the next five years, as well as the operating and capital budgets for 2009–10. The Board also acknowledged that DCC noted in this plan that it intends to review the performance measures it currently uses. In the spring of 2009, as it does every year, the Board evaluated the President's performance against corporate performance and his specific objectives.



COMMUNICATIONS

The Chair of DCC's Board of Directors maintains open communication with the Minister of Public Works and Government Services, as well as with DCC's various stakeholders. For example, to better understand stakeholder needs, DCC's Board conducted a site visit in September 2008 and saw some of the activities in which DCC's people are involved on behalf of DND and the CF. To enhance stakeholder communications, DCC held its first annual public meeting in March 2009, which fostered open discussion among key stakeholders, the Board of Directors and DCC's senior management. This outreach activity will be held annually.

DCC's Board receives both initial orientation and continuing briefings about DCC's programs and services, as well as presentations on subjects of interest to the Board. They all serve to increase the Board's knowledge and to solidify its understanding of DCC and its operations.

COMMITTEES OF THE BOARD OF DIRECTORS

All members of the Board of Directors sit on at least one of the three Committees of the Board: Audit, Governance and Nominating. The Charters of each of these Committees are outlined in the following section. The Board and the Committees meet *in camera* as required.

AUDIT COMMITTEE

The Audit Committee oversees DCC's internal operations and provides guidance on standards of ethics, integrity and behaviour. All Audit Committee members are independent of management and are financially literate. This Committee met twice during this reporting period.

Chair: Kris Matthews. Members: Shirley McClellan and Robert Presser.

Key issues: This Committee reviewed the recommendations arising out of the OAG's 2008 special examination of DCC, and DCC's response to them; approved the 2008-09 audit plan of DCC's internal audit consultants; and reviewed the new International Financial Reporting Standards.



GOVERNANCE COMMITTEE

The Governance Committee develops DCC's approach to corporate governance. This Committee evaluates DCC's corporate governance practices and ensures they are in line with current best practices, including those of the Treasury Board, other Crown corporations and private companies. This Committee is also responsible for maintaining the board competency profile and conducting the annual board self-assessment process, which includes questions related to committees and to individual directors. This Committee met once during this reporting period.

Chair: Nancy Penner. Members: Lloyd Callahan and Robert Presser.

Key issues: This Committee initiated a new annual sign-off process for all board members concerning the Conflict of Interest Act; adopted a shortened Board Competency Profile document; oversaw the annual board assessment and individual director survey, and established a plan to implement recommendations for improvement; and reviewed two new Treasury Board draft guidance documents, published in January 2009, regarding Crown corporation governance.

NOMINATING COMMITTEE

As part of its mandate, the Nominating Committee advises the Minister of Public Works and Government Services regarding the appointment and re-appointment of the President and Chief Executive Officer. There was one formal meeting of this Committee during this period.

Chair: Nancy Penner. Member: Ross Nicholls.

Key issues: This Committee oversaw the initiation of the selection process for a new President for DCC and drafted the selection criteria and job description for this position.

Attendance for Board of Directors and Committee meetings from April 1, 2008 to March 31, 2009

	Board meetings	Audit Committee	Governance Committee	Nominating Committee
Callahan, Lloyd	5 / 5		1 / 1	
Matthews, Kris	5 / 5	2 / 2		
McClellan, Shirley	5 / 5	2 / 2		
McLure, John *	1 / 5			
Nicholls, Ross	5 / 5			1/1
Penner, Nancy	5 / 5		1 / 1	1/1
Presser, Robert **	5 / 5	2 / 2	1 / 1	

* John McLure was Chair of the Board until April 10, 2008.

** Robert Presser was appointed Chair of the Board as of June 18, 2008.

Pursuant to the Privy Council Office's document, *Remuneration Guidelines for Part-Time Governor in Council Appointees in Crown Corporations*, DCC falls into Group 3. This document sets out the retainer and per diem amounts for DCC's board members.

	Annual retainer	Per diem
Callahan, Lloyd	\$3,800.00	\$300.00
Matthews, Kris	\$3,800.00	\$300.00
McClellan, Shirley	\$3,800.00	\$300.00
Penner, Nancy	\$3,800.00	\$300.00
Presser, Robert	\$7,500.00	\$300.00

Board of Directors

In March 2008, Ms. Shirley McClellan was appointed to the Board of Directors of DCC. Ms. McClellan replaced Mr. Jean-Claude Garneau, who had provided excellent guidance to DCC over his 10-year tenure on DCC's board.

In April 2008, Mr. John McLure's term as Chair of the Board expired. Mr. McLure had been a long-serving and dedicated member of DCC's

board who, before he became the Chair of the Board in April 2001, had been a board member since January 1990. Ms. Nancy Penner served as Acting Chair of the Board until Mr. Robert Presser's appointment in June 2008. Mr. Marc Ouellet was appointed to DCC's board on May 15, 2009.



Mr. Robert Presser, Chair of the Board

Mr. Presser is Vice-President of Acme Engineering Products Ltd. in Montreal. He has extensive experience in corporate governance, as well as in mergers and acquisitions for large Canadian corporations.



Mr. Ross Nicholls

Mr. Nicholls began his career with DCC in 1978 and held various operations and management positions in many different regional offices until he was appointed President and Chief Executive Officer in 1996.



Mr. Lloyd Callahan

Mr. Callahan is President and CEO of Callahan Construction Co. Ltd. in Kelowna. He brings many years of business management and construction industry experience to DCC.



Ms. Nancy Penner

Ms Penner is a seasoned corporate lawyer who has practised law in Calgary for over 20 years. She has also served on the boards of many public, private and not-for-profit organizations.



Ms. Kris Matthews

Ms Matthews is the Managing Partner of The Matthews Group, LLP in Calgary. As a business consultant who has served on the boards of numerous organizations, she brings much private sector experience to DCC's Board of Directors.



Ms. Shirley McClellan

Ms McClellan was a Member of the Alberta Legislature from 1987 to 2007 and held a number of senior cabinet positions. She is currently a Distinguished Scholar in Residence at the University of Alberta and is the Chair of the Board of Horse Racing Alberta.

Executive Team

Ross Nicholls, P.Eng., Ing.

President & Chief Executive Officer

After joining DCC in 1978, Mr. Nicholls held a variety of positions within the Corporation before he was appointed President and Chief Executive Officer in 1996. Active on the boards of several industry groups, he holds a Bachelor of Science degree from Mount Allison University and a Bachelor of Engineering (Civil) degree from the Nova Scotia Technical College.

Ronald de Vries, P.Eng.

Vice-President, Operations

Mr. de Vries joined DCC in 1983 after a number of years with a private consulting firm. He has been involved in the full spectrum of DCC's operations and has led a number of strategic initiatives that have contributed to the development of the Corporation's services and practices. He holds a Bachelor of Science (Civil Engineering) degree from Queen's University and is active on several committees within industry and government.

Steve Irwin, CD, P.Eng.

Vice-President, Operations

Mr. Irwin joined DCC in 2006 after serving as the CEO of the Canadian Forces Housing Agency. He graduated from the Royal Military College with a Bachelor of Engineering (Mechanical) degree and acted in a number of positions within the Canadian Forces. He concluded his tenure as Chief Engineer of the CF at the rank of Brigadier-General.

Angelo Ottoni, CA

Vice-President, Corporate Services, Chief Financial Officer and Secretary-Treasurer

Mr. Ottoni joined DCC in 2001 after working in the technology industry and with an international accounting firm. A certified chartered accountant, he earned a Bachelor of Commerce degree from Concordia University and a Public Accountancy diploma from McGill University.



Left to right: Ross Welsman, Angelo Ottoni, Steve Irwin, Stephen Karpyschin, Ross Nicholls, Melinda Nycholat, Ron de Vries, Randy McGee, Marc Lanteigne, David McCuaig

SENIOR MANAGEMENT TEAM

Stephen Karpyschin, P.Eng.

Director, Western Region

Marc Lanteigne, P.Eng., Ing.

Director, Quebec Region

David McCuaig, PMP, MPM

Director, National Operations

Randy McGee, P.Eng., GSC

Director, Ontario Region

Melinda Nycholat, P.Eng., PMP

Director, Contract Services

Ross Welsman, P.Eng., PMP

Director, Atlantic Region

Management's Discussion and Analysis

1.0 Corporate profile

1.1 Profile

Created in 1951, Defence Construction Canada (DCC) is a Crown corporation that provides a wide variety of property-related services to support the defence of Canada. The prime beneficiaries of DCC's services are the Department of National Defence (DND) and Canadian Forces (CF) operations, both domestic and overseas. DCC is accountable to Parliament through the Minister of Public Works and Government Services.

DCC also plays a major role in projects that shape the Canadian economic and military landscape and fulfill Canada's international obligations. In the past, DCC's construction expertise has been tapped to construct the Distant Early Warning (DEW) Line across the Arctic, the northern Ontario section of the Trans-Canada Pipeline and, more recently, the Canadian Embassy in Kabul, Afghanistan.

1.2 Mission, vision and values

Mission: DCC's mission is to deliver infrastructure and environmental projects and services required for the defence of Canada.

Vision: DCC's vision is to be a leading provider of innovative solutions that add value for its client, foster growth in its employees and make meaningful contributions to its industry.

Values: DCC's values ensure the Corporation can continue to meet the requirements of DND and the CF in Canada and abroad. Those values include the following.

Dedication: DCC is dedicated to supporting the infrastructure and environment requirements of DND. For over 55 years, DCC employees have dependably and diligently carried out that mission.

Fairness: DCC deals with its client, contract partners and employees in a fair and ethical manner, advocating mutual respect and professionalism in the attainment of the common interests of all parties.

Competence: DCC has created a dynamic working environment in which the qualifications, experience and expertise of employees are focused on developing innovative solutions to the client's needs.

1.3 DCC's client

Operationally and administratively, DCC deals with many organizations within DND. The Infrastructure and Environment Group of National Defence headquarters is DCC's principal point of contact for the centrally managed capital construction and environmental programs. As the chiefs of the maritime, land and air staffs are responsible for construction and maintenance programs at their respective facilities, DCC also has significant dealings with their organizations, primarily at the base, wing and station levels. DCC supports CF operations as requested by Canadian Operational Support Command, Canadian Expeditionary Forces Command and Canada Command.

Some of the smaller DND organizations for which DCC also contracts for—and manages—construction and environmental services include the Canadian Forces Housing Agency, Defence Research and Development Canada, and the Canadian Forces Personnel Support Agency. The Corporation also supports our country's NATO allies with training programs and facilities in Canada.

DCC will respond to requests for support within the scope of its mandate from other government departments and agencies with roles in Canada's changing defence environment.

1.4 Contractors and consultants

Because DCC works closely with private sector consultants and contractors, it is vital that the Corporation stay abreast of trends in the construction industry. In addition to maintaining formal exchanges with the Canadian Construction Association and its provincial and trade counterparts, DCC employees interact with contractors on job sites every day. These discussions help keep DCC informed of industry developments and provide a useful forum through which the Corporation connects with its contractor partners.

DCC also maintains relations with other groups, such as the Association of Canadian Engineering Companies, the Royal Architectural Institute of Canada, the Canadian Public Procurement Council and the Canadian Design-Build Institute, as well as industry organizations for a variety of non-construction services.

2.0 Capabilities to deliver results

2.1 Core characteristics

There are five characteristics that allow DCC to deliver quality service consistently. These have a direct impact on the viability of the Corporation.

Focus: DCC has had a single focus on a major client for more than half a century, developing an understanding of the client's needs and preferred approaches. That makes DCC unlike any other organization of its size in either the private or public sector.

Service: Standing between the public and private sectors, DCC knows how both the construction industry and the government work. This knowledge allows DCC to effectively communicate requirements to both the client and external service providers.

Delivery: DCC provides immediate and reliable access to technical and administrative expertise and, unlike many providers of similar services, does so on a continuing basis at the work site.

Flexibility: DCC manages its staff and administers projects with efficiency and flexibility equal to that of the private sector.

Value: DCC has consistently provided cost-effective solutions to DND's technical needs and maintains low overhead costs in providing its services.

2.2 Operating structure

DCC's head office is located in Ottawa. The Corporation has four regional offices (Atlantic, Quebec, Ontario and Western), an office to serve National Defence headquarters and the North, and 38 site offices located wherever there are CF bases, wings or area support units. In addition, DCC maintains remote offices in the Arctic as required for the DEW Line Clean-Up, and overseas in support of CF deployments.

3.0 Strategic initiatives

DCC's Corporate Plan identifies five planning themes—corporate governance, people, stakeholder relationships, service delivery and business management—that inform the organization's strategic initiatives.

The following is a summary of DCC's progress in 2008–09 with respect to initiatives identified under these themes.

Theme: Corporate governance and leadership

Objective	To provide strong and ethical leadership for the Corporation.
Initiative	Complete, refine or improve policies, practices and systems required to manage industrial security in accordance with DND requirements and the Government Security Policy. In satisfying this initiative, DCC developed and implemented a corporate security initiative, under which it worked to develop policies and procedures, prepare local security plans, establish a security organization, and train DCC employees.
Results	DCC developed and implemented a corporate security program that includes the following: • procedures to manage security requirements for DND contracts; • regional and site security officer positions; • security awareness training for all DCC employees; and • new policies and procedures that safeguard DCC's physical security and information holdings, as well as the operational security of DND.

Theme: People

Objective	To maintain a skilled, professional workforce.
Initiative	Implement the recruitment and retention strategy developed in 2007–08, a task that includes integrating career development, training and succession planning into human resources management systems.
Results	In 2008–09, the Corporation made progress on some key aspects of this initiative. For example, it launched an applicant tracking and candidate relationship management system to assist in screening and managing candidates who apply for open positions; created a new learning development specialist position to facilitate training and development efforts; and carried out a project to define an employee brand and tools that can be used to assist in recruitment and retention efforts.
Next steps	This initiative will continue in 2009–10 with the launch of an employee referral incentive program, the conducting of an employee engagement survey, and the development of certain recruitment and retention tools identified in the employee brand project. In addition, programs and processes will be developed to integrate succession planning into human resources management systems.

Theme: Service delivery

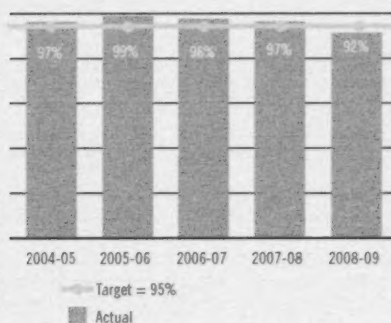
Objective	To ensure client requirements are met.
Initiative	Review industry procurement and contract management needs, and amend DCC policies to promote industry interest in, and facilitate access to, defence business opportunities.
Results	DCC solicited feedback from representatives of the architectural, engineering and construction industries through meetings and a general survey, to identify ways to improve DCC policies and practices. While the survey confirmed that industry has a high regard for the way DCC approaches its contracting and contract management, respondents also offered constructive ideas on ways to improve these approaches to facilitate access to and promote interest in defence projects. DCC will consider this feedback in its review of policies and practices.

Theme: Business management

Objective	To support service delivery capability.
Initiative	Undertake a needs analysis of the Corporation's records and document management requirements, keeping in mind future requirements for a knowledge management framework.
Results	DCC completed a needs analysis and feasibility study in 2008–09, and identified the key user and system requirements needed to successfully implement the document and knowledge management tools and processes.
Next steps	The project will be rolled out in phases over the next two fiscal years. In 2009–10, planned activities will include preparing and issuing a request for proposal for the purchase of the software tools, equipment, training and consulting services that will be required. That same year, DCC will also identify and implement the information technology (IT) infrastructure changes needed to support the new software tools, equipment and processes, including changes to workflow, security, and the definition and categorization of documents for retention and archiving.

4.0 Strategic and operational performance indicators

Client satisfaction

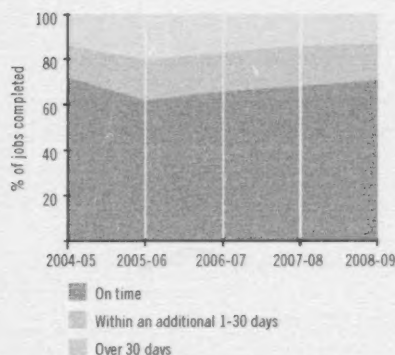


4.1 Client satisfaction

Completing each project or task to the satisfaction of the client is critical to the success of DCC operations. To this end, the Corporation tracks client satisfaction as one of its key performance indicators. DCC interviews clients individually, in person, once a year. Each client has the opportunity to comment on the service DCC provided on all projects in which the client was involved.

In 2008-09, DCC conducted client satisfaction surveys with 364 client representatives involved in 1,051 projects. Scores are weighted according to the value of each service level arrangement (SLA). For example, a score based on an SLA valued at \$1 million is weighted more heavily than a score based on an SLA valued at \$10,000. Service delivery rating scores are based on a scale of one to five. A score of three meets expectations and a score of four or five means DCC surpassed expectations. During 2008-09, 92% of clients indicated DCC met or exceeded client expectations, with 59% rating DCC's service at four or more and 33% offering scores of between three and four.

Timeliness of construction contract completions



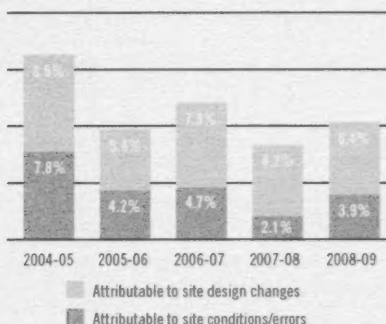
DCC considers all feedback received during this process and takes swift action where required, especially when a client gives DCC a score of less than three. Each year, DCC receives a range of feedback. In 2008-09, areas where respondents noted DCC could improve included contracting timeliness and communications. DCC is taking action in these areas as a result of a slight decrease in the overall rating.

Timeliness of construction contract completion

Completing contracts on time is a key component of client satisfaction. DCC monitors the timeliness of construction contract completions and works with clients to minimize schedule slippage. When slippage does occur, DCC ensures that DND knows the reasons. In 2008-09, 71% of completed construction contracts were finished by the established completion date, three percentage points better than the 2007-08 result of 68%. Another 16% were completed within one to 30 days and 13% were completed in over 30 days.

Change order values

Percentage of total award value



Change order values

The change order values in 2008-09 were consistent with the trend established in 2006-07 and 2007-08. The change in total award value for the year was 10.3% with 6.4% arising from design changes and 3.9% arising from site conditions. Although formal targets are not set for this indicator, DCC tracks this information in order to inform the client and to help facility users manage any schedule risks associated with construction.

4.2 Utilization

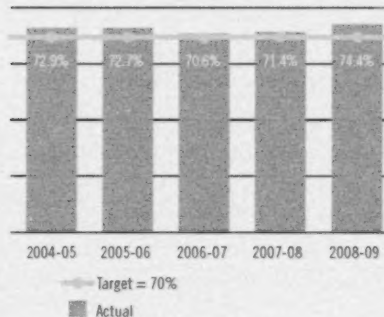
The utilization rate indicates the hours spent on contract-related functions as opposed to non-billable functions. It is an important performance indicator, as well as a key financial management tool. DCC's target utilization rate is 70%. In 2008–09, the utilization rate was 74.4%, an increase from 71.4% in 2007–08. This past year has seen a significant increase in the utilization rate, in contrast to the trend over the past few years. This rise was the result of increased management focus on operational efficiency and productivity at all levels of the organization.

4.3 Retention rate

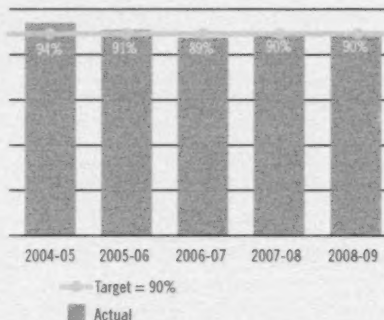
DCC's success depends on its ability to put the right people in the right place at the right time. To that end, the recruitment and retention of the types of employees needed to guarantee a high level of service to the client is critical. There will always be some turnover of staff, due to the seasonal and geographically cyclical nature of DCC's work. In 2008–09, DCC's retention rate remained essentially the same as the previous year. Competitive labour market conditions in certain regions of the country, particularly the western provinces, strongly affected retention.

Utilization rate

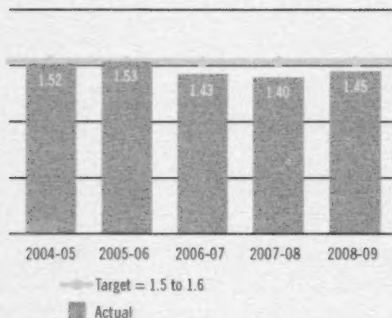
Percentage of employee hours spent on client contract work



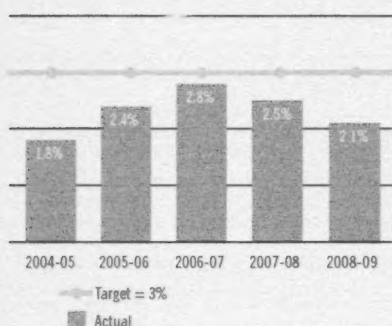
Retention rate



Direct personnel expense multiplier



Professional development to salary cost ratio



4.4 Direct personnel expense multiplier

The direct personnel expense multiplier (DPEM) is the factor by which DCC multiplies direct project personnel expenses to recover overhead costs. These expenses include salary costs, payroll benefits and compensated absences, such as vacation, sick days, holidays and professional development time. The target range for this indicator is between 1.50 and 1.60. With increased business volumes, the Corporation has been able to minimize billing rate increases over the past five years while still generating sufficient funds to meet its operating needs. That is the reason why the DPEM has fallen below the targeted range in recent years. Although the 2008–09 rate of 1.45 was higher than the previous year's rate, it remained below the target range.

4.5 Professional development to salary cost ratio

DCC's ability to serve its client is heavily dependent on the skills of its employees. Therefore, training and development are high priorities. DCC has established a target for spending on training and development at 3% of total salary costs for direct education costs.

Over the last four years, a portion of the allocation has been redirected from direct training to the design and development of a comprehensive training and development framework. As a result, during 2008–09, DCC spent only 2.1% of salary cost on direct training, compared with 2.5% in 2007–08. The significant investment over the past several years in developing a curriculum of internal courses to meet key training and development needs has reduced demand for—and, therefore, the cost of—external training; it has also increased the time spent on internal training. This is a positive return on the investment in course development. However, it also indicates a need to develop a new performance indicator that is not based solely on external training and development costs.

DCC will change the primary indicator for 2009–10 to report the total annual investment in professional development, defined as a combination of direct expenditures and the cost of staff time spent on educational activities, expressed as a percentage of total salary cost. The target for 2009–10 will be 5%. Reported on this basis, the percentage was 5.3% in fiscal 2008–09 and 5.8% in fiscal 2007–08. Although the target is 5%, the Corporation's goal is to spend no less than 5%. DCC acknowledges that the rate may fluctuate from year to year, depending on planned activities to develop and maintain the internal course curriculum.

4.6 Timeliness of procurement

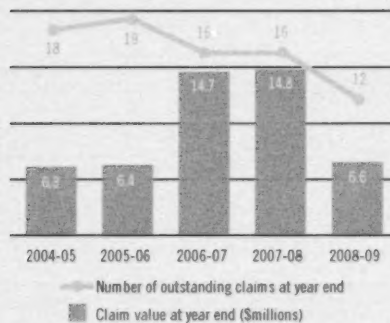
		2008-09		
Contract type	Target (days)	Number of requests	Percentage on target	Median (days)
Construction				
Regular	35	290	37.2%	40
Tender boards	25	514	29.8%	29
Quick-response tenders	14	173	37.6%	16
Design-build	120	0	N/A	N/A
Consultants				
SELECT	25	245	29.0%	34
One-step RFPs	60	66	22.7%	88
Two-step RFPs	120	10	10%	183

DCC's clients want to begin work as soon as possible after receiving project approval, making timeliness of procurement a key performance indicator. DCC intentionally sets aggressive targets for the timeliness of construction and consultant procurements. The targets represent a reasonable length of time from the receipt of a procurement request from DND to the awarding of the contract. DCC attempts to meet these aggressive targets on 50% of procurements. Factors that affect performance against the targets include the availability of funding or bid documents, bid anomalies and changes to the scope of the work during the procurement process. Additional time required as a result of these factors is not included in the targets and accounts for the variance. To date, DCC awards construction contracts within 11 days of tender close, on average, which the industry considers a very reasonable timeframe.

4.7 Successful contracts

DCC recognizes the time and effort that the industry expends to prepare and submit tenders. Consequently, to reduce the risk of a failed tender, DCC screens all projects for bidability. At year-end, 95% of DCC tender calls had resulted in the award of a contract. This figure compares to 95.1% in 2007-08, 94.7% in 2006-07, 93.6% in 2005-06 and 99.5% in 2004-05. The most frequent reason why a tender does not result in a contract is that the tender price exceeds the approved budget amount.

Legal claims



4.8 Legal claims

The value of contract claims before the courts is a direct indication of DCC's efforts to resolve contract disputes. In 2008-09, DCC legal claims valued at \$9,739,605 were settled for a total value of \$436,498.

As at March 31, there were 12 claims outstanding with a total value of \$6,640,209, compared with \$14,791,595 outstanding at the end of 2007-08. These amounts are consistent with the trend of the past five years. The financial risk associated with contractual claims is managed by DND and does not have any financial impact on the Corporation.

5.0 Risk management

Under the direction of the Board of Directors, senior management has established a comprehensive risk management framework within DCC's general management framework. The framework identifies the risks associated with DCC's environment and its main business activities, evaluates the probability and potential impact of risk occurrence, and defines mitigation measures to avoid or minimize risk. The framework is integrated into the Corporation's strategic planning process to ensure high-risk areas receive special consideration in the planning exercise, particularly with respect to establishing priorities and allocating resources.

The Risk Management Committee, composed of the President and Vice-Presidents, establishes the overall risk mitigation strategy. The management team is responsible for implementing actions that will mitigate risks while promoting awareness of risk management among employees. At the same time, sound risk management practices are embedded in DCC's corporate culture. Staff members are expected to identify risks and deal expediently with issues and problems. When necessary, operating risks are referred to senior managers for guidance and assistance.

DCC balances risks with the need to provide a high level of timely operational support to DND and the CF. DCC's risk management approach includes sound business process documentation, as well as effective and efficient levels of delegation of authority, supported by speedy communication up the chain of command.

5.1 Environmental responsibilities

To mitigate DCC's impact on the environment, the Board of Directors and senior management group of DCC are committed to the principles of sound environmental stewardship. The Corporation's operational policies and procedures are designed to minimize environmental impacts on all work sites, and specify the significance of environmental incidents that must be reported by employees. No such incidents occurred in 2008–09 (there were also no such incidents in 2007–08).

In 2008–09, DCC implemented environmental incident reporting criteria to match DND's criteria for spill reporting.

5.2 Maintaining a safe work environment

Occupational health and safety is a primary concern at DCC, and the Corporation invests in safety-related communications and training.

Highlights of DCC's safety program in 2008–09 included the launch of an updated Health and Safety Manual including revised policies, processes and participant responsibilities. At the same time, DCC also launched a reporting and tracking structure to help DCC identify, analyze, and respond to employee health and safety recommendations. In addition, the Corporation introduced an online safety orientation and re-orientation process in 2008–09.

DCC is also working with DND to review DND's guide and standards for its operational safety program. DCC will continue to support the client as it goes through this review.

The number of lost-time injuries increased from five in 2007–08 to seven in 2008–09, while the number of hours lost rose from 63 to 733. One major incident contributed to this increase.

6.0 Financial performance

6.1 Services revenue

Services revenue was \$71.6 million in the year ended March 31, 2009, an increase of \$16.1 million or 29% from the previous year. Approximately 24% of the increase was due to the rise in business activity from higher demand for services, approximately 3% to the increase in average billing rate and 2% to a combination of other factors, including mark-up fluctuations on fixed fee arrangements and the mix of billable resources used from year to year.

Construction services revenue

Revenue from construction services increased in 2008–09 by 23% over the previous year, driven by a combination of factors that included rising business volume, higher billing rates, and changes in the nature and size of individual construction projects and the effort required to manage them.

Project and program management services revenue

A significant rise in the demand for project and program management services during 2008–09 resulted in an increase in revenue of 57% over the previous year.

Environmental services revenue

Although environmental services revenue rose in 2008–09 by 17% over the previous fiscal year, the rate of increase was slower than the increase experienced in other service lines. The cyclical nature of the client's demand for these services has a direct impact on the revenue generated by this service line from year to year.

Contract services revenue

Contract services revenue increased by 38%, driven by a rise in billing rates, the growing volume of contracts tendered and other factors, including the client's increased demand for value-added services related to contracting, a change in the size and complexity of contracts tendered, and the effort required to award the contracts.

Real property management services revenue

Revenue from real property management services decreased by 39%, reflecting a decrease in demand for services related to energy performance, facilities management and facilities decommissioning. The cyclical nature of the client's demand for these services has a direct impact on the revenue generated by these services from year to year.

Services revenue, by service line (in thousands of dollars)

	2008-09	2007-08	Change	
Construction services	\$ 33,849	\$ 27,499	\$ 6,350	23%
Project and program management services	18,759	11,983	6,776	57%
Environmental services	9,506	8,144	1,362	17%
Contract services	8,385	6,085	2,300	38%
Real property management services	1,071	1,747	(676)	-39%
	\$ 71,570	\$ 55,458	\$ 16,112	29%

6.2 Expenses

Salaries and employee benefits

Salaries rose to \$46.9 million in 2008-09, an increase of \$8.3 million or approximately 22% over the previous fiscal year. Growth in the number of employees, due to higher levels of business activity, accounted for approximately 19% of the increase, whereas a combination of salary increases and employee mix accounted for the remainder. Employee benefits rose to \$13.2 million in 2008-09, an increase of \$2.4 million or approximately 22% over 2007-08. This increase was largely related to the rise in salaries as well as the higher cost of certain benefits, primarily those related to extended health care and pension plans. As a percentage of salary, benefits represented 28.1% of salary cost and remained consistent with the previous year.

Salaries and employee benefits (in thousands of dollars)

	2008-09	2007-08	Change	
Salaries	\$ 46,888	\$ 38,559	\$ 8,329	22%
Benefits	13,181	10,784	2,397	22%
	\$ 60,069	\$ 49,343	\$ 10,726	22%
Benefits as a percentage of salaries	28.1%	28.0%	0.1%	

Operating and administrative expenses

Operating and administrative expenses were \$7.1 million for 2008–09, an increase of \$902,000 or approximately 14% over the previous year. A variety of factors influenced these expenses.

- Rent expenses increased by approximately 19% because DCC procured additional office space at regional and head office locations to accommodate growth in personnel and because leasing costs rose at certain locations.
- Employee training and development costs remained relatively consistent from year to year. Expressed as a percentage of salary cost, training and development in 2008–09 was 2.1%, compared with 2.5% the previous year.
- Professional services expenses rose by about 16% due to increased spending on consulting services related to internal audit, industrial security, human resources, communications and information technology.
- Telephone and data communications costs remained consistent from year to year. Although there was significant growth in business activity and the number of employees, the Corporation was also able to save money by using both data and voice lines more effectively and efficiently, and by paying cheaper rates in certain cases.
- Staff relocation costs rose by approximately 66%. This significant increase was the result of the combination of an increased number of relocations in 2008–09 and a higher average cost per relocation, compared with the previous year.
- Travel costs rose by 5%. Employees travelled more, due to increased business activity, but that expense was offset by lower air travel costs and less travel activity related to the development of service lines, compared with the previous year.
- Office services, supplies and equipment expenses rose by 35% due to a combination of the growth in personnel, office space and general business activity, and inflationary price increases on certain office supplies and services.
- Leased office equipment expenses rose by 11% due to an increase in the number and cost of items such as copiers, printers and faxes, which was tied to the growth in staff, facilities and business activity.
- Recruiting costs rose by 52% due to increased recruitment activity in 2008–09, compared with the previous fiscal year.
- Software maintenance costs remained consistent from year to year.
- Office furniture and equipment costs increased by 371% due to the significant growth in personnel.
- Printing and stationery costs rose by 13% due to a combination of inflationary price increases and increased business activity.
- Computer software and equipment expenses decreased by 19% due to exceptional spending on the Human Resources Information System (HRIS) implementation in 2007–08.
- Client services and communications costs decreased by 25% due to reduced spending on communications projects and initiatives, compared with the previous fiscal year.

Operating and administrative expenses (in thousands of dollars)

	2008-09	2007-08	Change	
Rent	\$ 1,775	\$ 1,496	\$ 279	19%
Employee training and development	971	978	(7)	-1%
Professional services	874	753	121	16%
Telephone and data communications	724	720	4	1%
Staff relocation	613	370	243	66%
Travel	539	512	27	5%
Office services, supplies and equipment	524	388	136	35%
Leased office equipment	159	143	16	11%
Recruiting costs	158	104	54	52%
Software maintenance	145	148	(3)	-2%
Office furniture and equipment	132	28	104	371%
Printing and stationery	125	111	14	13%
Computer software and equipment	102	126	(24)	-19%
Client services and communications	98	131	(33)	-25%
Other	191	220	(29)	-13%
	\$ 7,130	\$ 6,228	\$ 902	14%

Amortization of property, plant and equipment

Amortization of property, plant and equipment increased by 24% or \$202,000 in fiscal 2008-09 due to higher capital expenditures in fiscal 2008-09, compared with the previous year.

Amortization of property, plant and equipment (in thousands of dollars)

	2008-09	2007-08	Change	
Amortization of property, plant and equipment	\$ 1,053	\$ 851	\$ 202	24%

6.3 Net income (loss) and comprehensive income (loss)

The net income and comprehensive income for the year ended March 31, 2009 was \$3.5 million compared with a loss and comprehensive loss of \$706,000 in the previous year. The significant improvement in operating results was due to a combination of factors including significantly higher services revenue which increased 29% during the year, improvement in the gross margin rate from 40% to 41% and the improvement in the utilization rate from 71% in 2007-08 to 74% in 2008-09 which also resulted in a significant reduction in overhead salaries expressed as a percentage of services revenue from 29% in 2007-08 to 24% in 2008-09.

Net income (loss) and comprehensive income (loss) (in thousands of dollars)

	2008-09	2007-08	Change	
Net income (loss) and comprehensive income (loss)	\$ 3,472	\$ (706)	\$ 4,178	592%

6.4 Liquidity and capital resources

The Corporation's financial management policy and financial statements assume that the Corporation is a going concern and its stated mandate will continue for the foreseeable future. DCC's financial management policy is to generate sufficient cash to meet its anticipated operating and capital requirements, and to settle its financial obligations as they become due. In determining the amount of cash reserves carried for operating needs, the Corporation considers the risks inherent in its operations, particularly the risks associated with potential and unanticipated changes to the amount or timing of construction project expenditures by DND.

To fulfill its mandate and remain ready and able to serve its client at all times, the Corporation must constantly react to changing business conditions, and be able to financially support and sustain its operations when sudden or unanticipated business changes occur. As a result, the Corporation allows for reasonable levels of operating contingencies in determining the amount of cash reserves it carries. Management constantly monitors and reviews cash levels to determine their appropriateness. Any surpluses or shortfalls that may occur occasionally are taken into consideration in formulating future business plans. In particular, cash surpluses judged to be in excess of operating requirements are returned to the client through the setting of billing rates for future services.

Cash

The Corporation does not have segregated cash reserves. When appropriate, cash that exceeds short-term operational requirements is invested in accordance with the investment policy approved by the Board of Directors.

The cash balance at March 31, 2009, was \$7.9 million, an increase of \$1.8 million or 30% from the previous year. During fiscal 2008-09, the Corporation generated \$3.1 million in cash from operating activities and spent \$1.3 million on capital expenditures.

Due from related parties

On March 31, 2009, the amount due from related parties was \$15.3 million, which represents an increase of \$5.8 million or 61% over the previous year. The increase was due to a combination of higher revenues in 2008–09, compared with the previous year, and the increase in the average number of days that accounts were outstanding to 56 days at March 31, 2009, from 53 days at the end of fiscal 2007–08. A significant amount of receivables was not collected until the first week of the new fiscal year.

Current liabilities

Current liabilities were \$6.8 million at March 31, 2009, an increase of \$2.5 million or 58% from March 31, 2008. The variance is primarily attributable to an increase of \$1.1 million in the accrual amount associated with salaries, vacation, furlough and overtime expenses, as a result of the significant growth in personnel and a rise in the amount due to related parties and trade accounts payable, due to the increased level of business activity. Other factors that affect this balance from year to year include the amount of the current portion of employee future benefits and the timing of expenses (both the time expenses are incurred and the time they are paid).

Liquidity and capital resources (in thousands of dollars)

	2008–09	2007–08	Change	
Cash	\$ 7,962	\$ 6,135	\$ 1,827	30%
Due from related parties	\$ 15,342	\$ 9,500	\$ 5,842	61%
Current liabilities	\$ 6,849	\$ 4,340	\$ 2,509	58%

6.5 Provision for employee future benefits

The Corporation records a liability for the estimated cost of severance, including health care benefits for its retirees. This estimate is actuarially determined. The accrued severance and other benefits balance as at March 31, 2009, was \$12.3 million, an increase of \$2.3 million or approximately 23% from the previous year. The balance increased by the amount of benefits accrued in the current fiscal year of \$2.7 million and decreased by the amount of benefits paid in the current year of \$333,000. The provision for employee future benefits fluctuates from year to year due to a combination of factors, including the inflation rate; workforce changes; changes in the discount rate, which is determined by reference to market interest rates; changes in the average rate of salary increases; and changes to the average expected remaining service lifetime of active employees, due to changing demographics. Note 5 to the financial statements describes the actuarial assumptions used in determining the provision. This liability is primarily long term and the Corporation estimates the current payout amount based on the best information available. Although the Corporation has not specifically segregated funds for this obligation, it has sufficient capital resources to meet its employee future benefit payment obligations as they become due.

Provision for employee future benefits *(in thousands of dollars)*

	2008-09	2007-08	Change	
Accrued future benefits	\$ 12,343	\$ 10,013	\$ 2,330	23%
Less: current portion	361	228	133	58%
Long-term portion	\$ 11,982	\$ 9,785	\$ 2,197	22%

6.6 Capital expenditures

The Corporation's capital expenditures for fiscal 2008-09 totalled \$1.3 million, an increase of \$549,000 or 70% from the previous year. The increase was mainly due to significant spending on leasehold improvements and the purchase of furniture and supplies for new office space as a consequence of the significant growth in personnel and business activity in the past year.

Capital expenditures *(in thousands of dollars)*

	2008-09	2007-08	Change	
Software	\$ 53	\$ 226	\$ (173)	-77%
Computer equipment	520	453	67	15%
Furniture and equipment	380	97	283	291%
Leasehold improvements	381	9	372	4132%
	\$ 1,334	\$ 785	\$ 549	70%

6.7 Actual performance versus plan

The following table indicates the Corporation's actual performance in fiscal 2008-09 compared with the projections in the Corporate Plan.

Services revenue was \$9 million or 14% above plan, due mainly to higher-than-planned business volume.

Interest revenue was \$154,000 or 44% below plan. This variance was primarily due to lower-than-planned average interest rates during the year.

Salaries and employee benefits were \$5.3 million or 10% higher than plan. This increase was largely the result of a combination of higher-than-planned staff growth and increases in salaries and benefits. Operating and administrative expenses were consistent with the plan.

Amortization of property, plant and equipment was \$101,000 or 9% lower than plan. Although capital expenditures were slightly higher than plan, the variation in the mix of capital expenditures among the various categories produced a lower amortization expense.

The significant variation in net income and comprehensive income compared to plan is the result of three major factors: higher revenues than anticipated in the plan; better gross margins realized on revenues; and better operating efficiencies realized from increases in staff utilization rates.

Capital expenditures were \$9,000 or 1% above plan.

Actual performance versus plan (in thousands of dollars)

	Actual 2008-09	Plan 2008-09	Change	
Revenue				
Services	\$ 71,570	\$ 62,672	\$ 8,898	14%
Interest	154	277	(123)	-44%
	71,724	62,949	8,775	14%
Expenses				
Salaries and employee benefits	60,069	54,776	5,293	10%
Operating and administrative	7,130	7,072	58	1%
Amortization of property, plant and equipment	1,053	1,154	(101)	-9%
	68,252	63,002	5,250	8%
Net income (loss) and comprehensive income (loss)	\$ 3,472	\$ (53)	\$ 3,525	
Capital expenditures	\$ 1,334	\$ 1,325	\$ 9	1%

6.8 Future accounting changes

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that for fiscal years commencing on or after January 1, 2011, all publicly accountable enterprises, including DCC, must prepare and report their financial statements using International Financial Reporting Standards (IFRS). As a result, IFRS will replace Canadian generally accepted accounting principles (Canadian GAAP). DCC's first IFRS compliant financial statements will be those for the year ending March 31, 2012. However, one year of comparative IFRS financial information must be provided for the year ending March 31, 2011. Consequently, DCC will move to IFRS on April 1, 2010, the first day of the comparative period.

To prepare for the conversion to IFRS, the Corporation engaged an independent international accounting firm in April 2008 to analyze the potential impacts of adopting IFRS on the Corporation's financial statements, and to provide general guidance and direction to the Corporation on the adoption of and conversion to IFRS.

In addition, over the past year, management and the financial and accounting staff responsible for maintaining accounting policies, financial records and financial statements have been gaining a better understanding and knowledge of IFRS. They have attended various seminars and training sessions, and have studied and researched the international standards using related materials and reference books.

Although the Corporation has not yet fully assessed the impact of adopting IFRS, the work completed to date indicates that many of the differences identified are not expected to have a material impact on the Corporation's reported results and financial position but are likely to affect the type and amount of information that will be disclosed in the notes to the financial statements.

Throughout the remaining conversion period, DCC will continue to assess the differences between IFRS and the Corporation's current accounting policies, as well as alternatives available on first-time adoption. This assessment will look at the impact of conversion, if any, on information technology and data systems, internal control over financial reporting, disclosure controls and procedures, and business activities. The Corporation will also continue to engage independent international accounting firms throughout the conversion period to provide DCC with additional knowledge and expertise to assist it in its conversion efforts.

6.9 Five-year summary financial information (in thousands of dollars)

	2008-09	2007-08	2006-07	2005-06	2004-05
Revenue					
Services	\$ 71,570	\$ 55,458	\$ 47,826	\$ 42,481	\$ 34,641
Interest	154	258	265	164	93
	71,724	55,716	48,091	42,645	34,734
Expenses					
Salaries and employee benefits	60,069	49,343	42,592	35,310	28,671
Operating and administrative	7,130	6,228	5,845	5,108	4,268
Amortization of property, plant and equipment	1,053	851	881	769	808
	68,252	56,422	49,318	41,187	33,747
Net income (loss) and comprehensive income (loss)	\$ 3,472	\$ (706)	\$ (1,227)	\$ 1,458	\$ 987
Retained earnings, beginning of year	3,386	4,092	5,319	3,861	2,874
Retained earnings, end of year	\$ 6,858	\$ 3,386	\$ 4,092	\$ 5,319	\$ 3,861
Assets					
Cash	\$ 7,962	\$ 6,135	\$ 7,845	\$ 7,295	\$ 5,152
Accounts receivable, related parties, prepaids and advances	15,917	9,847	7,850	7,648	6,152
Property, plant and equipment	1,810	1,529	1,595	1,483	1,504
	\$ 25,689	\$ 17,511	\$ 17,290	\$ 16,426	\$ 12,808
Liabilities					
Accounts payable, related parties and accrued liabilities	\$ 6,488	\$ 4,112	\$ 4,885	\$ 4,216	\$ 3,361
Provision for employee future benefits	12,343	10,013	8,313	6,891	5,586
	18,831	14,125	13,198	11,107	8,947
Capital stock and retained earnings					
Common shares	—	—	—	—	—
Retained earnings	6,858	3,386	4,092	5,319	3,861
	6,858	3,386	4,092	5,319	3,861
	\$ 25,689	\$ 17,511	\$ 17,290	\$ 16,426	\$ 12,808
Cash flows from (used in)					
Operating activities	\$ 3,161	\$ (925)	\$ 1,543	\$ 2,891	\$ 1,713
Acquisition of property, plant and equipment	(1,334)	(785)	(993)	(748)	(868)
	1,827	(1,710)	550	2,143	845
Cash, beginning of year	6,135	7,845	7,295	5,152	4,307
Cash, end of year	\$ 7,962	\$ 6,135	\$ 7,845	\$ 7,295	\$ 5,152

7.0 Outlook

The past five years at DCC have been marked by constant growth in service offerings to DND.

Moving into the 2009–10 planning period, it is expected that demand will continue to be high for services related to infrastructure for new CF equipment, but spending on routine operations and maintenance could decline as a result of DND program review.

Beyond 2009–10, the planning assumption is that equipment-driven construction programs will proceed, but more slowly than originally scheduled. At the same time, DCC management assumes that spending will be restrained in the foreseeable future, resulting in reduced DND spending on operations and maintenance and on “non-essential,” value-added DCC services. While the forecast estimates limited growth beyond 2010, it nevertheless maintains DCC’s operational activity and revenue generation at levels that are higher than the Corporation has experienced in decades.

DND construction program spending has gradually increased to approximately \$600 million, and the department is increasingly turning to DCC to provide services beyond construction contract management. These types of services include project and program management support, facilities management, and diverse and specialized environmental services. DCC has managed these client requirements over the past few years quite adroitly and will continue to do so. The increase in DCC’s non-construction services to 53% of service revenue demonstrates the importance of diversity to the future of the Corporation.

To meet the challenges that this diversity brings, DCC has undertaken several strategic initiatives that focus on managing change. The Corporation understands that, in this time of business evolution, elements of human resources—such as learning and development, internal communications, succession planning, and recruitment and retention—are critical to business success. In both the short and medium term, senior management will pay special attention to these areas to ensure the viability and the success of the Corporation. That could mean a slight decrease in the utilization rate in the short term, but this approach must be seen as a long-term investment for the benefit of the client.

DCC is also preparing for the upcoming retirement of the President and CEO, a transition that will have an impact on the Corporation. DCC has a strong senior management team in place that will support a seamless transition of these senior roles.

The Corporation's employee population reached 778 full-time staffers at the end of 2008–09. That is a 92% increase from 405 employees in 2004–05. Clearly, DCC is in the midst of a transition in many ways. Looking forward five years, many variables could affect the Corporation's scope and range of services. The major factor will be the demands of the Canadian government for defence services, and the subsequent priorities of DND and the CF. DCC has a well-established track record of success in construction contract management and infrastructure support services. This collective core expertise, held together by over 58 years of culture, good governance and steady management, will enable the Corporation to meet these needs in the future.

7.1 Financial outlook

The Corporation has traditionally taken a conservative approach to forecasting future growth. The Corporation's latest Corporate Plan shows an increase in revenue of approximately 6% for 2009–10, driven by a combination of anticipated higher business volumes and a planned increase in billing rates of approximately 4%. For the remaining plan years, revenue growth has been forecasted to increase by approximately 3% a year, which is in line with expected increases in salaries and benefits. Business volumes are assumed to remain constant over this period.

Salaries and benefits expenses for 2009–10 are forecasted to increase by approximately 10% from 2008–09. This rise is due to an expected increase in total staff, as well as to inflationary and merit increases to salaries. For future years, the Corporation's financial forecasts assume an increase in salaries and benefits of approximately 3% a year, with staff strength remaining constant.

Operating and administrative expenses for 2009–10 are projected to increase by 11% over 2008–09. This rise is due to a combination of inflationary increases, growing business volume, and higher projected spending on rent and certain discretionary expenses, such as employee training and development, professional fees and business travel. For the remaining plan years, operating and administrative expenses are forecasted to increase by 3% a year, primarily to cover projected inflation increases.

Amortization of property, plant and equipment is expected to increase by 17% in 2009–10 over 2008–09, due mainly to the projected rise in capital expenditures. Projections for capital expenditures, as discussed below, will affect the year-to-year fluctuation in the amortization expense over the remaining years of the plan.

A net income and comprehensive income of \$724,000 is forecasted for 2009–10 and net income and comprehensive income of between \$444,000 to \$683,000 is forecasted for the remaining years of the plan.

Capital expenditures are projected to increase by 17% in 2009-10 over the previous year. The anticipated expenditures for the year ending March 31, 2010, will primarily relate to ongoing requirements to provide computers and software to new employees; to upgrade older computer systems and software; and to make leasehold improvements and buy office furniture and equipment for new facilities to accommodate the growing workforce. Increased spending is projected in the later years of the plan in anticipation of major expected upgrades to the Corporation's main computer systems and software applications.

DCC's Corporate Plan for 2009-10 to 2013-14 was prepared when it was unclear what direction the Government of Canada would take in response to the economic situation. Subsequent announcements and actions taken by the government now indicate that revenue growth in 2009-10 may be higher than that projected in the plan.

Financial outlook (in thousands of dollars)

	2008-09 Actual	2009-10 Plan	2010-11 Plan	2011-12 Plan	2012-13 Plan	2013-14 Plan
Revenue						
Services	\$ 71,570	\$ 75,631	\$ 77,900	\$ 80,237	\$ 82,644	\$ 85,123
Interest	154	294	365	431	487	531
	71,724	75,925	78,265	80,668	83,131	85,654
Expenses						
Salaries and employee benefits	60,069	66,082	68,064	70,106	72,209	74,375
Operating and administrative	7,130	7,889	8,126	8,370	8,621	8,880
Amortization of property, plant and equipment	1,053	1,230	1,392	1,675	1,857	1,908
	68,252	75,201	77,582	80,151	82,687	85,163
Net income and comprehensive income	\$ 3,472	\$ 724	\$ 683	\$ 517	\$ 444	\$ 491
Capital expenditures	\$ 1,334	\$ 1,559	\$ 1,600	\$ 1,700	\$ 1,800	\$ 2,000

Management Responsibility Statement

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles using management's best estimates and judgements where appropriate. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing her report thereon.



Ross Nicholls
President
and Chief Executive Officer



Angelo Ottoni
Vice-President, Corporate Services
and Chief Financial Officer

May 1, 2009



Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Public Works and Government Services

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 2009 and the statements of operations and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

Louise Bertrand, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
May 1, 2009

DEFENCE CONSTRUCTION (1951) LIMITED

Balance Sheet

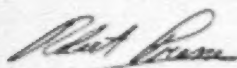
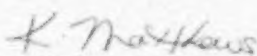
as at March 31, 2009 (in thousands of dollars)	2009	2008
Assets		
Current		
Cash	\$ 7,962	\$ 6,135
Due from related parties (note 6)	15,342	9,500
Prepays, advances and accounts receivable	575	347
	<u>23,879</u>	<u>15,982</u>
Property, plant and equipment (note 4)	1,810	1,529
	<u>\$ 25,689</u>	<u>\$ 17,511</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 5,787	\$ 4,074
Due to related parties (note 6)	701	38
Current portion - provision for employee future benefits (note 5)	361	228
	<u>6,849</u>	<u>4,340</u>
Provision for employee future benefits (note 5)	11,982	9,785
	<u>\$ 18,831</u>	<u>\$ 14,125</u>
Shareholders' equity		
Share capital		
Authorized - 1,000 common shares of no par value		
Issued - 32 common shares	\$ -	\$ -
Retained earnings	6,858	3,386
	<u>6,858</u>	<u>3,386</u>
	<u>\$ 25,689</u>	<u>\$ 17,511</u>

Commitments (note 7)

Contingencies (note 9)

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors:


Director
Robert Presser

Director
Kris Matthews

DEFENCE CONSTRUCTION (1951) LIMITED

Statement of Operations and Comprehensive Income

for the year ended March 31, 2009 (in thousands of dollars)	2009	2008
Revenue		
Services (note 6)	\$ 71,570	\$ 55,458
Interest	154	258
	<u>71,724</u>	<u>55,716</u>
Expenses		
Salaries and employee benefits	60,069	49,343
Operating and administrative	7,130	6,228
Amortization of property, plant and equipment	1,053	851
	<u>68,252</u>	<u>56,422</u>
Net income (loss) and comprehensive income (loss)	\$ 3,472	\$ (706)

Statement of Retained Earnings

for the year ended March 31, 2009 (in thousands of dollars)	2009	2008
Retained earnings at beginning of year	\$ 3,386	\$ 4,092
Net income (loss) and comprehensive income (loss)	3,472	(706)
Retained earnings at end of year	<u>\$ 6,858</u>	<u>\$ 3,386</u>

The accompanying notes are an integral part of these financial statements.

DEFENCE CONSTRUCTION (1951) LIMITED

Statement of Cash Flows

for the year ended March 31, 2009 (in thousands of dollars)	2009	2008
Cash Flows From Operating Activities		
Net income (loss) and comprehensive income (loss)	\$ 3,472	\$ (706)
Items not requiring cash:		
Provision for employee future benefits	2,663	2,027
Amortization	1,053	851
	3,716	2,878
Employee severance and other non-pension benefits paid	(333)	(327)
Increase (decrease) in non-cash working capital balances related to operations:		
Due from related parties	(5,842)	(2,149)
Prepays, advances and accounts receivables	(228)	152
Accounts payable and accrued liabilities	1,713	(765)
Due to related parties	663	(8)
	(3,694)	(2,770)
Net cash flows provided by (used in) operating activities	3,161	(925)
Cash Flows Used In Investing Activities		
Acquisition of property, plant and equipment	(1,334)	(785)
Increase (decrease) in cash during the year	1,827	(1,710)
Cash at beginning of the year	6,135	7,845
Cash at end of the year	\$ 7,962	\$ 6,135

The accompanying notes are an integral part of these financial statements.

DEFENCE CONSTRUCTION (1951) LIMITED

Notes to Financial Statements

March 31, 2009

1. Authority and objective

Defence Construction (1951) Limited (the "Corporation") was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. Since 1996, responsibility for the Corporation has rested with the Minister of Public Works and Government Services. The Corporation is not subject to income taxes.

The mandate of the Corporation is to provide procurement, construction, professional, operations and maintenance services in support of the defence of Canada. The prime, but not exclusive, beneficiary of the Corporation's services has always been the Department of National Defence. Other government departments and agencies who play a role in Canada's defence may also avail themselves of these services. Revenue is generated from fees charged for specific services provided.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below.

Cash

Cash consists of funds held in one bank account.

Due from related parties and accounts receivable

Due from related parties and accounts receivable are stated at amortized cost, which approximates fair value, given the short dated nature of these financial assets.

Property, plant and equipment

Property, plant and equipment are comprised of leasehold improvements, equipment (which includes furniture) and computers (which includes hardware, purchased software and implementation costs). These assets are amortized on a straight-line basis as follows:

Equipment	5 years
Computers	3 years
Leasehold improvements	Shorter of the lease term or useful life

In the year of acquisition, a full year of amortization is recognized.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments.

Financial instrument classification is as follows:

Cash	Held for trading
Advances and accounts receivable	Loans and receivables
Due from related parties	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities

Held for trading – Held for trading financial assets are measured at fair value at the balance sheet date with changes in their fair value recorded in income.

Loans and receivables – Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities – Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities.

Employee future benefits

Employees are entitled to specific severance and other non-pension benefits. The projected accrued benefit obligations are actuarially determined using the projected benefit method pro-rated on services (which incorporates management best estimates of expected salary escalation, retirement ages of employees and expected health care costs). The current year expense is comprised of current service cost during the year, imputed interest on the projected benefit obligation and the amortization of the actuarial gain/loss in excess of 10% of the benefit obligation over the average remaining service period of active employees.

Pension benefits

All eligible employees of the Corporation participate in the Public Service Pension Plan (the "Plan") administered by the Government of Canada. Although the Plan is a defined benefit plan, it meets the definition of a multi-employer plan, which is accounted for as a defined contribution plan, as sufficient information is not available to account for it as a defined benefit plan. The Corporation's contributions to the Plan are currently based on a multiple of the employees' required contributions, and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are expensed during the year in which the services are rendered. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Plan.

Revenue

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, the service has been performed, the price to the recipient is fixed or determinable and collection is reasonably assured.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. The most significant estimate in these financial statements is the provision for employee future benefits. Actual results could differ significantly from this estimate.

Future accounting standards

The Canadian Accounting Standards Board has announced that all publicly accountable Canadian reporting entities will adopt International Financial Reporting Standards (IFRSs) as Canadian generally accepted accounting principles for years beginning on or after January 1, 2011. The Corporation is currently evaluating the impact of the adoption of these new standards.

3. Capital management

The Corporation's objectives in managing capital are to safeguard the Corporation's ability to continue as a going concern and fulfill its stated mandate, generate sufficient cash to meet its anticipated operating and capital requirements and settle its financial obligations as they become due.

In determining the amount of cash reserves carried for operating needs, the Corporation considers the planning and operating risk inherent in its operations, particularly the risk associated with potential and unanticipated changes to the amount or timing of construction project expenditures by the Department of National Defence. Cash levels are constantly monitored and any surpluses or shortfalls that may occur from time to time during certain operating periods are taken into account in the determination of billing rates for future services. The Corporation's capital consists of its share capital and retained earnings.

4. Property, plant and equipment

(in thousands of dollars)

2009

	Cost	Accumulated amortization	Net
Equipment	\$ 2,137	\$ 1,622	\$ 515
Computers	9,051	8,442	609
Leasehold improvements	1,354	668	686
	\$ 12,542	\$ 10,732	\$ 1,810

(in thousands of dollars)

2008

	Cost	Accumulated amortization	Net
Equipment	\$ 1,770	\$ 1,412	\$ 358
Computers	8,617	7,955	662
Leasehold improvements	973	464	509
	\$ 11,360	\$ 9,831	\$ 1,529

5. Provision for employee future benefits

Severance and other non-pension benefits

The benefit plan is not funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

(in thousands of dollars)

2009

2008

Total provision for employee future benefits	\$ 12,343	\$ 10,013
Less: current portion	361	228
	\$ 11,982	\$ 9,785

(in thousands of dollars)

2009

2008

Projected accrued benefit obligation	\$ 11,716	\$ 11,358
Unamortized actuarial gains (losses)	627	(1,345)
Provision for employee future benefits	\$ 12,343	\$ 10,013
Current year's expense	\$ 2,663	\$ 2,027
Benefits paid during the year	\$ 333	\$ 327

The significant actuarial assumptions adopted in measuring the Corporation's severance and other benefit plans are as follows:

	2009	2008
Discount rate for projected benefit obligation	6.00%	4.96%
Average rate of general salary increases	3.50%	3.50%
Inflation rate	2.50%	2.50%
Assumed health care cost trend rate	4.50%	4.50%
Ultimate health care cost trend rate	4.50%	4.50%
Year ultimate health care cost trend rate is reached	2009	2009
Uninsured Pensioner 1994 with mortality projections to year 2015 (UP94@2015) for 2009 and 2008	UP94@2015	UP94@2015
Retirement age	59	59

The health care cost trend rate is assumed to exceed inflation by 2% per annum for future years.

The measurement date for the last actuarial valuation of the accrued benefit obligation was April 1, 2009. The next actuarial valuation is planned for April 2010.

Pension benefits

The Corporation and all eligible employees contribute to the Public Service Pension Plan (the "Plan"). This Plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The current year's contributions by the Corporation to the Plan were \$5,457,379 (2008 - \$4,498,014). The current year's contributions by the employees of the Corporation to the Plan were \$2,644,016 (2008 - \$2,029,674).

The rates of contribution to the Plan are determined on a calendar year basis and were as follows:

	2009	2008	2007
Employees – current service:			
On earnings up to yearly maximum pensionable earnings (YMPE)	5.2%	4.9%	4.6%
On earnings exceeding YMPE: 2009 - \$46,300, 2008 - \$44,900, 2007 - \$43,700	8.4%	8.4%	8.1%
Employer - expressed as a multiple of employee contributions:			
For contributions on current and elective service on single rate employee contributions	1.91	2.02	2.14
For elective service on double rate employee contributions	.46	.51	.56
For Retirement Compensation Arrangement (RCA) on earnings that exceed: 2009- \$136,700, 2008 - \$130,700, 2007 - \$126,500	7.5	7.3	7.0

6. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at the exchange amount which is the actual amount of the consideration given or received for the services provided. Substantially all of the Corporation's services revenue of \$71,570,000 (2008 - \$55,458,000) is generated from services provided to the Department of National Defence (DND). In the National Capital Region, Public Works and Government Services Canada manages DND facilities and provides funds to the Corporation to engage contractors to perform infrastructure services.

In accordance with a Memorandum of Understanding between DND and the Corporation, DND is to provide office accommodations free of charge to the Corporation's service delivery personnel at DND-owned bases and wings. Where office space is not provided, and for the Corporation's service delivery personnel who cannot be accommodated at a DND owned facility, accommodation costs are recovered either as an out-of-pocket reimbursable disbursement or through the hourly billing rates established for the services provided.

Amounts due from and to related parties at the end of the year are as follows:

<i>(in thousands of dollars)</i>	2009	2008
Due from:		
Department of National Defence	\$ 15,304	\$ 9,493
Public Works and Government Services Canada	38	4
Natural Resources Canada	—	3
	\$ 15,342	\$ 9,500
Due to:		
Department of National Defence	\$ 102	\$ 5
Public Works and Government Services Canada	590	19
Human Resources and Social Development Canada	—	12
Canada School of Public Service	1	1
Public Service Commission of Canada	8	1
	\$ 701	\$ 38

The aging of related party receivables at the end of the year was:

<i>(in thousands of dollars)</i>	2009	2008
Current (<61 days)	\$ 14,917	\$ 9,226
Past due (61-120 days)	214	213
Past due (>120 days)	211	61

During the year the Corporation wrote-off \$8,560 (2008 - \$1,558) of amounts due from related parties primarily to account for invoicing corrections.

7. Lease commitments

The Corporation leases office space for its operations. The future minimum annual lease payments are as follows:

<i>year ending March 31 (in thousands of dollars)</i>	
2010	\$ 2,056
2011	1,976
2012	1,718
2013	1,630
2014	1,344
	<u>\$ 8,724</u>

8. Financial instruments

Financial instruments consist of cash, due from and due to related parties, advances, accounts receivable, accounts payable and accrued liabilities.

Fair value

Due from related parties, advances, accounts receivable, accounts payable, accrued liabilities and due to related parties are primarily due on demand and non-interest bearing. The estimated fair value of these financial instruments approximates their carrying value due to their short-term nature.

Credit risk

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The carrying value of financial assets is \$23,315,000 (2008 - \$15,657,000) and represents the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the financial asset. The Corporation minimizes credit risk on cash by depositing the cash with only reputable and high quality financial institutions. The Corporation has no significant exposure to credit risk on accounts receivable as substantially all of the accounts receivable are due from the Government of Canada. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of accounts receivable with any one customer. Based on historic default rates, the Company believes that there are no requirements for an allowance for doubtful accounts.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. The carrying value of financial liabilities is \$6,849,000 (2008- \$4,340,000) and represents the maximum exposure of the Corporation. The Corporation manages its liquidity risk by monitoring and managing its cash flow from operations and anticipated investing activities. The liquidity risk is low since the Corporation does not have debt instruments and derives its cash flow from services offered to the Government of Canada. In addition, as at March 31, 2009, the Corporation's financial assets exceeded its financial liabilities by \$16,466,000 (2008 - \$11,317,000).

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and comprises three types of risk: currency risk, interest rate risk and other price risk. The Corporation's financial assets and liabilities are not exposed to any one of these market risks given their underlying nature and characteristics.

9. Contingencies

Letters of credit aggregating \$200,000 (2008 - \$200,000) in respect of contractual obligations are currently outstanding. The Corporation is currently involved in legal claims in respect of contractual obligations totalling \$6,640,209 (2008 - \$14,791,595) and \$nil in respect of employment matters (2008 - \$75,000). The final outcome of such claims is not determinable. In accordance with the terms of a Memorandum of Understanding (MOU) between the Corporation and DND, settlements resulting from the resolution of any existing and future legal claims in respect of contractual obligations will be entirely funded by DND, in the year of settlement. As a result of this MOU, and its assessment of risk, the Corporation does not consider it necessary to record any liabilities in its financial statements relating to legal claims.